

Some Myths on FedEx, Home Values

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Article:

Whenever a new development is opposed by neighboring home owners, one of the opponents' foremost claims is that the development will reduce residential property values. Sometimes the claims are borne out by the facts, sometimes not.

The proposed FedEx hub at Piedmont Triad International Airport has generated this type of complaint, and the reasoning seems sound. More jets equals more noise, more noise is a nuisance, and nuisances lower home values.

In fact, a 1994 study conducted on behalf of the Federal Aviation Administration supports this view. The study's authors estimated that doubling the number of flights over a neighborhood (roughly the effect of the FedEx hub) would reduce the value of a \$200,000 home by about 4 percent, or \$8000. The annualized equivalent of this figure would be the annual payment on an \$8000 mortgage. At the current rate of about 8 percent, that works out to a little over \$700 per year over the life of a 30-year fixed-rate mortgage.

Different people could argue about whether \$700 per year is large or small. But is the issue so simple as that? I'll address a pair of misconceptions about how airport expansions affect residential property values.

The first misconception is the view that changes in property values should be construed as economic costs to the community, to be weighed directly against a development's benefits. For an effect to be counted as a benefit, it has to expand the economic pie; for an effect to be counted as a cost, it has to shrink the pie.

But there's no shrinkage when a development reduces property values in one particular area. In a stable population, those reductions are completely offset by rising home values elsewhere in the area, leaving the aggregate value of the region's stock of housing unchanged.

Of course this is no comfort to those who fear for their home values. But the point is that falling property values *per se* in one area do not affect the entire region's net economic health. Even so, as a matter of politics, it may make sense to use a fraction of the project's economic benefits for compensation.

So far, I've assumed that an airport expansion will reduce nearby home values. The second misconception is that this is *always* what happens. Some recent research on airport expansions has shown that there can be significant second-round effects that the 1994 FAA-commissioned study overlooked.

The first-round effect is a decline in values of nearby homes, as residents who want to avoid the increased noise put their homes up for sale. But the second-round effect is an increased demand for those homes by people employed by businesses associated with the expanded airport. For those people, proximity to the airport is a plus.

The people who might value proximity to PTI wouldn't be just FedEx employees. If FedEx pays off for the Triad, it will not be because of the people FedEx employs directly. It will be because the company and its air-

cargo service fill an important niche in a growing regional economy. Many of the people who would want to live near the airport would be employed by businesses who benefit from proximity to the FedEx hub.

Most researchers have understood that jet noise and proximity have opposite effects on home prices near an airport. The question in a given case is whether the value of the latter is greater than the cost of the former. Often it is.

For example, a 1998 study of the airport at Manchester, England, found that for a given distance from the airport, home values did fall with increased noise. But it also found that for a given noise level, values of homes close to the airport were quite high.

Consequently, some neighborhoods near the Manchester airport appreciated significantly after an expansion. For these neighborhoods, the authors conclude, “access and employment opportunities provide a relative boost to the local housing market.”

For a particular airport, which factor will be more important in a given neighborhood depends on the relationship between the dispersion of jet noise and the pattern of access to the airport. How the runways are ultimately configured at PTI will naturally be an important determinant. But when viewed in the aggregate, another 1998 study, this one by UNCG economist Don Jud and focusing specifically on FedEx and the Triad, predicts that the local housing market will benefit from the hub.

Addressing these misconceptions about property values doesn't prove that the FedEx hub will be good for the Triad economy (though I think it will be). But it's always useful to realize that reality is rarely as tidy as the two sides in any debate would have us believe.